# Paper

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## Danish households' net wealth position

This paper provides an assessment of the net wealth position of Danish households. Conducting such an assessment, it is vital to not only focus on the household debt, but also to include assets held by households; not only housing assets, but also pension assets and financial assets such as bonds and equities.[1]

The net wealth[2] position of Danish households appears fundamentally sound on aggregate, with net wealth having risen from some 200 per cent of disposable income in 1993 to 450 per cent in 2006 – around the peak of the asset price cycle – before subsiding to some 375 percent of disposable income by the end of 2008.

This is still a level much higher than during the last economic slow down between 2001 and 2003. Households have increased their asset stock considerably during the past decades through savings, including more widespread participation in labour market pension schemes, and helped by increasing property and equity prices. Household debt has also increased, although not to the same extent as assets, and the asset-to-debt ratio has remained around or above 2-to-1.

### Household assets and debt

Danish household assets have increased considerably over the last 25 years. In the early 1980's, total household assets amounted to approximately 3 times disposable income[3], rising to more than 6 times disposable income at the end of 2008, cf. chart 1a. Assets included in this estimate are housing assets, which constitute the largest part (55 per cent) of total household assets, equities, pension assets[4] and other financial assets[5], cf. Chart 1b.

The increase in household assets is due to a number of factors. Since the mid-1990s, rising housing prices have contributed significantly to the increase in the asset stock. The increase in property prices has been sufficiently strong in order for housing assets to constitute an increasing part of total household assets, despite strong accumulation of equities and pension assets. However, the share of housing assets to total assets is still moderate in a historical comparison, cf. chart 1b.

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[1] We thank Danmarks Nationalbank for providing the data and an inspirational paper for this analysis.
[2] Net wealth is defined as total assets (incl. housing assets, financial assets and pension assets) less total debt.
[3] Household disposable income is defined as all household income, including wages, income transfers and capital income. Contributions to collective pension schemes are deducted and payments from such pension schemes are added.
[4] Pension assets, which are primarily direct and indirect holdings of equities and fixed income assets, are measured on an after-tax basis, as they are subject to income taxation upon disbursement.
[5] This category comprises especially bonds and bank deposits.

Chart 1a

Household assets and debt relative to disp. income

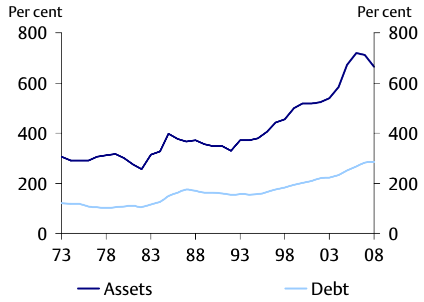
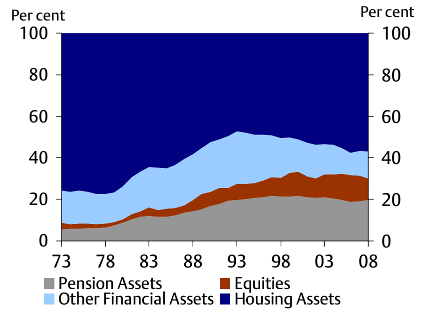



Chart 1b

Composition of household assets




Source: Danmarks Nationalbank

Pension assets (net of tax) have increased significantly since the 1970's, also as a share of total household assets, cf. Chart 1b. Pension assets now correspond to 60 per cent of GDP. This is primarily due to the expansion of labour market pensions, especially from the early 1990's onwards.

The debt of Danish households has also increased significantly since the beginning of the 1980's, especially during the mid-1980's and the period from the mid-1990's onwards, which should be seen in light of the strong increases in property prices during the last 10-15 years. To a certain extent, and helped by financial liberalization, it has become more common to use housing equity as collateral for loans for e.g. home improvements, asset diversification and also consumption. The debt to disposable income ratio has risen from around 1 in the beginning of the 1980's to around 3 in 2008, cf. Chart 1a.

The household debt-to-income ratio is high in international comparison but to a large extent this is the counterpart of very substantial pension savings, partly as a result of an income and capital gains taxation system that favours savings in pension accounts. Moreover, debt ratios should be seen in relation not just to disposable income but also to total national income. With relatively high taxes, disposable income in Denmark is smaller relative to national income than in most other countries. But the counterpart of high taxes (net of transfers) is a high degree of public services delivered free-of-charge to households. Individual public consumption on health care, elderly care, childcare and education etc. make up some 20 per cent of GDP, and households do not need to purchase these services out of disposable income.

All in all, measured in absolute terms, household assets have risen by considerably more than household debt during the last decades. A number of other assets, such as consumer durables and the value of capital goods and land owned by self-employed, are not included in the numbers, which hence underestimates household assets and household wealth.

**Household net wealth**

Household net wealth, i.e. total assets less total debt, has increased from a stable level of 2 times disposable income in the 1970's to mid-1990's to above 3.5 times disposable income by the end of 2008, cf. Chart 2a.

**Chart 2a**

**Household net wealth rel. to disp. income**

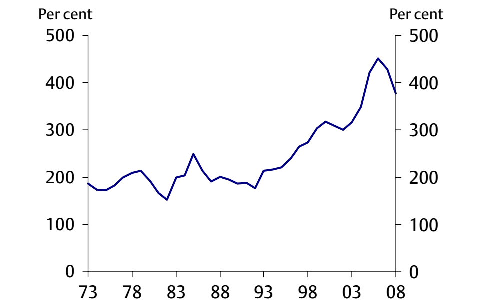
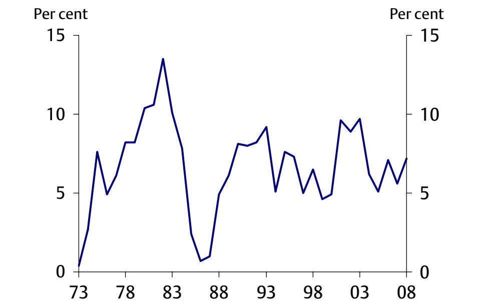



**Chart2b**

**Household savings rel. to disp. income**




Note: Savings include investments in real capital

Source: Danmarks Nationalbank and ADAM database

In the most recent years, falling equity and property prices have taken their toll on household wealth, bringing it down from 4.5 times disposable in 2006 to the current level of around 3.5 times disposable income. Still, the level is much higher than in previous decades. Hence, even if housing (and possibly equity) prices should fall further, households seem on aggregate to be reasonably well bolstered financially. This favourable position covers a broad range of different degrees of vulnerability to changes in asset prices across households, but in general terms, households seem relatively well equipped to withstand further negative shocks to e.g. house (or equity) prices.

The development in household wealth is to a large extent the result of a positive savings rate that has fluctuated between 5 and 10 per cent of disposable income since the early 1990's, cf. Chart 2b. A continuously positive savings rate of course contributes to household wealth accumulation.

Concluding, although Danish households have accumulated debt along with the housing market boom since the last trough on the Danish housing market around 1993, other household asset components have also grown during the past decades. Hence, housing assets now constitute a lower part of total assets than in the 1970's and 1980's. The more diversified household portfolios provide a more solid base for withstanding further deterioration of asset values, although pension assets are less liquid than other asset classes. Furthermore, wealth is still at a high level in a historical comparison, and Danish households have throughout the past decades had a positive savings rate, which also helps facilitate consolidation in times of falling house and equity prices.